Summary record of PECC workshop on Global Value Chains

Background

On 22 May 2014 NZPECC held a workshop comprising officials and business representatives to: 'Identify the questions we should ask (and who we should ask) to develop a better understanding of the operation and performance of GVCs that New Zealand businesses participate in'.

The workshop addressed the following questions.

Session 1: What do we know about the global value chains that New Zealand firms participate in, and the challenges they face e.g.:

- Where are GVCs most prevalent?
- How do NZ firms participate (JVs, offshore activities, strategic alliances, invested vertically up and down the value chain in in-market storage and ripening etc.)?
- How much influence do NZ firms have (control or contribute)?

Session 2: What should further research into global value chains focus on e.g.:

- Are there 'leader' and 'laggard' firms, and what distinguishes them?
- Do GVCs provide opportunities for SMEs to internationalise?
- What barriers do NZ firms face, or will face – onshore/offshore?
- Should we focus on specific sectors?

This note records the outcomes of the workshop.

High level insights

- The combination of liberal global trade and investment environment, changes to the economics of undertaking business activities in different ways and in different locations across the world, and new technologies, has resulted in a new global economic system that includes new organizations, organizational strategies, production networks and consumer preferences.

- This is continuing to play out, both because the process of learning by doing and entrepreneurship that typifies dynamic systems continuously produce new organizations, strategies, networks and customer preferences, but also because these in turn further influence the global economic system.

- The practical effect of this is that global value chains are highly diversified and constantly changing. There is no such thing as a 'typical' GVC which makes the study of them complex and inevitably incomplete.

- That being said, policy (with a particular focus on trade strategy) can respond to the challenges posed by GVCs in two ways:

- building knowledge and capability in partner agencies in key countries and regions of the mutual benefits associated with using value chains as the unit of analysis for trade negotiations and removing barriers to their efficient operation, and;
- developing specific sectoral-based strategies for trade negotiations based on a clear understanding of what we want by way of a business outcome and what is in it for the other country.

Introductory comments by Gary Hawke

- The reality for some time is that countries are economically interdependent, and notions of a country producing finished goods for export to another are outdated.
- Equally outdated are notions that trade is mainly to do with goods, with services a minor addition.
- Both the language we use to communicate with each other and our strategies need to reflect this reality. Export promotion should be replaced with trade promotion and the domestic policy/trade policy distinction should be replaced with terms such as regulatory coherence.

Today's business reality

Workshop participants illustrated many of the features and challenges of the current business environment.

First Discussant

- New Zealand businesses have many embedded assets that influence how they think and the costings they do.
- 'Made and packed in New Zealand' is a high value asset for some firms in some markets, but not so in other markets.
- This perception and reality of where the value is changes over time. For example, 20-30 years ago no one would have thought about packaging infant formula in Singapore and this would have been done in New Zealand. However, the value of doing it in New Zealand may no longer be there in many markets. We need to apply hard economic logic of what makes sense.
- The goal of businesses is to maximize returns to shareholders, but to do this they need to be customer focused. To understand customers trends visit supermarkets which often have a high level of sophistication (even in emerging economies as they have often have large catchments of wealthy people).
- Agility in the supply chain is critical, and this can mean moving ingredients closer to the market (compared with doing everything in New Zealand).

- The environmental impact of transportation is a key consideration (most of the carbon footprint of finished goods supply chains is on the sea).

- New technology opens up new possibilities, and these need to be anticipated and explored. For example 3D printing has opened up the possibility of spares for air forces to be produced as and when required, and in the field, mitigating the need for large inventories and complex logistics. What implications are there for manufacturing value chains generally?

Second discussant

- We need to be mindful that 60% of trade is now in intermediate inputs rather than finished goods.

- Significant transaction costs (both tariffs and customs procedures) can arise when intermediate inputs cross borders many times in the course of producing a final product as part of a single value chain.

- We are aware of some of the more obvious policy implications for encouraging engagement in IPNs, such as those to lower border transaction costs, but other policy implications are less obvious.

Points made by other participants

- Value chains are as many and as varied as there are businesses in New Zealand as they are 'horses for courses'.

- Transportation networks such as NZ Post and Web based selling (Countdown Supermarket on-line) provide significant opportunities for New Zealand **SMEs** as they provide platforms for accessing very large markets. SMEs can also increasingly target niche, high value markets and use internet shopping to cut out the intermediary completely.

- In the **horticulture** sector the value is largely created in New Zealand as produce deteriorates over time - although it was emphasized that a lot of the value is around supply and timing because of deterioration and requires an investment in supply chains and harvesting and storage technologies that result in high quality product being delivered to customers.

- Some customers such as the Japanese also require supply all year round. Sometimes we can achieve this with a New Zealand brand but in other cases (avocados) we are too small and have to come in under someone else's brand and participate in a supply chain controlled by someone else. Our biggest challenge is accessing these supply chains.

- In the **meat** industry we did look at becoming the packer of goods but it did not stack up economically. We would have had to be fully integrated and 24/7 and cope with small margins. Now we have meat going to 130 countries from 19 processing companies with 19 different strategies. While ownership structures are different it is hard to tell whether one is more successful than another.

- New Zealand firms need to manage risks to brand and reputation arising out of participation in value chains in which others also participate. One way to do this is use smart technologies such as barcoding to convey complete and accurate information in what is otherwise a very crowded and confusing information space.

- The challenge for New Zealand businesses generally is to make themselves visible on the world stage.

Implications for policy

- We need to persuade other countries that there is value in negotiating in the context of GVCs, emphasizing **complementarity** rather than conflict. For example, New Zealand ingredients are used as an input into a business in another country. In effect, there is a benefit to both New Zealand and the other country of building an industry there based on New Zealand ingredients. This requires us to think about what we want by way of a business outcome in particular areas and understand the particular circumstances before we go into a negotiation with another country, and persuade our negotiating partners that both countries will be better off if this outcome is achieved. It requires building a trade strategy around a cross-sectoral approach. At the moment we have a shotgun approach.

- New Zealand can also help contribute to a more positive policy environment for GVCs through building knowledge and capability in partner agencies in key regions and countries such as ASEAN. We currently invest very little in this.

- Our focus must be on extracting as much value as possible from our natural resources. 30 years ago we were seen to be poor because we imported TVs and exported butter but this has now changed. We are significantly better off given where the value is now.